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No. 06-937

In the Supreme Court of the United States

QUANTA COMPUTER, INC., ET AL., PETITIONERS

v.

LG ELECTRONICS, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTION PRESENTED

Whether a patentee's federal patent rights are exhausted by a licensee's authorized sale of an essential component that has no reasonable use other than in practicing the patented invention, when the patentee has purported to retain in its licensing agreement the right to pursue patent infringement claims against those who purchase the component from the licensee and use it for its only reasonable use.

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BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is submitted in response to the Court's order inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be granted.

STATEMENT

1. Respondent owns several patents that relate to systems and methods for receiving and transmitting data in computer systems. Pet. App. 2a. Petitioners are computer manufacturers who build computer systems by combining computer parts with specialized microprocessors and chipsets purchased from Intel Corporation. *Id.* at 2a, 29a-30a. Intel is authorized by a cross-license agreement (License) with respondent to manufacture, and to sell to petitioners, those specialized components, which are essential to respondent's patented invention. *Id.* at 2a-3a, 29a-30a, 55a.

According to the parties and the courts below, the License authorizes Intel to "make, use, sell (directly or indirectly), offer to sell, import and otherwise dispose of all Intel Licensed Products." Pet. App. 33a (citation

omitted).[1] The License expressly disclaims any express or implied license for acts of infringement that may occur when a third party—such as petitioners—combines Intel components with non-Intel products or components. Br. in Opp. 4-5 (citing License § 3.8). A contemporaneous Master Agreement that incorporates the License by reference also provides: "[respondent] and Intel intend and acknowledge that [respondent's] grant of a license to Intel for Integrated Circuits . . . shall not create any express or implied license under [respondent's] patents to computer system makers that combine Intel Integrated Circuits with other non-Intel components to manufacture motherboards, computer subsystems, and desktop, notebook and server computers." *Id.* at 6 (quoting Master Agreement § 2). The License, however, also states: "Notwithstanding anything to the contrary in this Agreement, the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products." *Id.* at 5 (quoting License § 3.8) (emphasis omitted).

The Master Agreement provides that Intel will send a notice to its customers stating, in pertinent part, that Intel has a "broad patent license" from respondent that "ensures that any Intel product that you purchase is licensed by [respondent] and thus does not infringe any patent held by [respondent]." Br. in Opp. 7 (quoting C.A. App. 3632). The notice further states: "*Please note however that while the patent license that [respondent] granted to Intel covers Intel's products, it does not ex-*

[1] Apart from the portions quoted in the opinions and by the parties, the provisions of the License and a contemporaneous Master Agreement between Intel and respondent are confidential. See Br. in Opp. 4 n.1. The United States does not have access to those agreements.

tend, expressly or by implication, to any product that you may make by combining an Intel product with any non-Intel product." *Ibid.* (citation omitted). It is undisputed that petitioners received that notice from Intel before purchasing some of the components at issue. See *ibid.*; Reply Br. 9.

2. Respondent filed this suit for patent infringement against petitioners. Pet. App. 30a. Respondent did "not contend that the Intel microprocessors and chipsets, alone, infringe any of the patents at issue." *Ibid.* Rather, it alleged that "the licensed Intel products meet many of the limitations of the patents and, when combined with other components in the accused devices, infringe five of its patents." *Ibid.* Petitioners moved for summary judgment on the ground that respondent's claims "are barred to the extent the alleged infringement depends upon the authorized use of a licensed Intel component for its intended and sole purpose." *Ibid.*

3. Relying on this Court's decision in *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942), the district court held that respondent's patent claims were exhausted. Pet. App. 26a-51a. The court concluded that, having "licensed to Intel the right to practice [its] patents and sell products embodying its patents," respondent could not assert an infringement claim "against those who legitimately purchase and use the Intel microprocessor and chipset." *Id.* at 33a. In so concluding, the court emphasized that the components that petitioners purchase from Intel were essential to respondent's patented invention and have no reasonable use that does not practice respondent's patents. *Id.* at 32a-49a; see *id.* at 55a.

In a subsequent order (Pet. App. 52a-61a), the district court rejected respondent's argument that the patent-exhaustion doctrine did not apply because Intel's sales to petitioners were "not unconditional" in that Intel "expressly informed [petitioners] that their purchase of components from Intel did not grant them a license to infringe [respondent's] patents." *Id.* at 58a. The district court reasoned that, notwithstanding that notice, petitioners' purchase was "unconditional, in that [petitioners'] purchase * * * was in no way conditioned on their agreement not to combine the Intel microprocessors and chipsets with other non-Intel parts and then sell the resultant products." *Ibid.*

The district court also held, however, that the *method* claims in respondent's patents were not subject to exhaustion. Pet. App. 60a (citing *Glass Equip. Dev., Inc.* v. *Besten, Inc.*, 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999), and *Bandag, Inc.* v. *Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924 (Fed. Cir. 1984)). The district court further held that petitioners did not acquire an implied license to practice respondent's claimed invention. The court reasoned that "the circumstances do not plainly indicate that a license was implied, because Intel expressly disclaimed the existence of such a license." *Id.* at 61a.

The court construed the remaining patent claims and granted summary judgment of non-infringement to petitioners. See Pet. App. 62a-81a; Br. in Opp. 9 n.5.

4. The court of appeals affirmed in part, reversed in part, and vacated in part. Pet. App. 1a-25a. The court reversed the district court's judgment that respondent's system claims were exhausted. In so doing, the court reasoned that the doctrine of patent exhaustion is triggered only by an "unconditional" sale because, in such a

transaction, the patentee "has bargained for, and received, an amount equal to the full value of the goods." *Id.* at 4a-5a (quoting *B. Braun Med., Inc.* v. *Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)). By contrast, in an "expressly conditional sale or license," the court explained, "it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee." *Id.* at 5a (quoting *B. Braun Med., Inc.*, 124 F.3d at 1426).

Here, the court concluded that Intel's sales of microprocessors and chipsets to petitioners were "conditional." Pet. App. 6a. The court pointed to respondent's license agreement with Intel, which "expressly disclaims granting a license allowing computer system manufacturers to combine Intel's licensed parts with other non-Intel components" and "required Intel to notify its customers of the limited scope of the license, which it did." *Ibid.* Thus, the court concluded that, "[a]lthough Intel was free to sell its microprocessors and chipsets, those sales were conditional, and Intel's customers were expressly prohibited from infringing [respondent's] combination patents." *Ibid.*

The court affirmed the district court's holding that respondent's method claims were not exhausted. Pet. App. 6a. The court reasoned that, even if the exhaustion doctrine applies to method claims, there was no unconditional sale. *Ibid.* In the alternative, the court held that "the sale of a device does not exhaust a patentee's rights in its method claims." *Ibid.*

Finally, the court vacated in most respects the district court's determination of non-infringement and remanded. Pet. App. 6a-25a. A jury trial is scheduled for January 2008. See No. 4:01-cv-01375-CW, Docket entry No. 992 (N.D. Cal. Dec. 27, 2006).

DISCUSSION

The doctrine of patent exhaustion, also known as the first-sale doctrine, implicates fundamental questions concerning the scope of the exclusive rights conferred under the patent laws. Since this Court last squarely addressed the doctrine in *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942), the doctrine has evolved in the Federal Circuit in a manner that appears to conflict with this Court's patent-exhaustion cases, thereby creating uncertainty as to when a patentee may enforce, through federal-court actions for patent infringement (as opposed to state-law contract actions), downstream limitations on purchasers following an authorized sale. Whatever rights a patentee may have to enforce such limitations as a matter of contract, the question whether a patentee may invoke federal patent law to enforce such limitations against authorized purchasers is one of considerable practical importance, and this case presents an adequate vehicle for addressing that question.

I. THE FIRST-SALE DOCTRINE HAS EVOLVED IN THE FEDERAL CIRCUIT IN A MANNER THAT APPEARS TO CONFLICT WITH THIS COURT'S CASES

A. Under This Court's Cases, The Patent-Exhaustion Doctrine Delimits The Exclusive Rights Granted By The Patent Law

1. The patent law grants to the patent holder the "right to exclude others from making, using, offering for sale, or selling the invention." 35 U.S.C. 154(a).[2] Since *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1853), this Court repeatedly has made clear that the exclusive

[2] Correspondingly, the patent statute provides that "whoever without authority makes, uses, offers to sell, or sells any patented invention * * * infringes the patent." 35 U.S.C. 271(a).

rights to use or to sell are exhausted, as to a given article embodying the invention, upon the first valid sale of the article in commerce, whether by the patentee itself or by an authorized licensee. *Id.* at 549-550; see, *e.g.*, *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (plurality opinion); *Univis Lens*, 316 U.S. at 251-252; *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 508-518 (1917); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Hobbie* v. *Jennison*, 149 U.S. 355, 361-363 (1893); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873). Thus, under this Court's cases, a patentee who sells a machine embodying the invention (either directly or through an authorized licensee) cannot bring a patent infringement suit against the purchasers for using the machine for its only reasonable use or for reselling the machine to others. See, *e.g.*, *Univis Lens*, 316 U.S. at 250-252; *Motion Picture Patents*, 243 U.S. at 515-518; *Keeler*, 157 U.S. at 666; *McQuewan*, 55 U.S. (14 How.) at 549-550; *Adams*, 84 U.S. (17 Wall.) at 456. Instead, the enforceability of downstream limitations after an authorized sale would arise "as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Keeler*, 157 U.S. at 666; accord, *e.g.*, *Motion Picture Patents*, 243 U.S. at 509, 513; *McQuewan*, 55 U.S. (14 How.) at 549-550.

This Court's cases treat the first-sale doctrine as delimiting the exclusive rights afforded the patentee by the patent laws. As the Court has explained, "when the machine passes to the hands of the purchaser," it "passes outside" the scope of the patentee's rights, "and is no longer under the protection of the act of Congress." *McQuewan*, 55 U.S. (14 How.) at 549. Accord, *e.g.*, *United States* v. *General Elec. Co.*, 272 U.S. 476, 489

(1926); *Adams*, 84 U.S. (17 Wall.) at 456. In effect, under this Court's cases, an authorized sale of a patented article grants an implied-in-law license under the patent laws to practice the patent. See 35 U.S.C. 271(a) (use of a patented invention "without authority" constitutes infringement). As *Adams* explained, this Court's first-sale cases rest on the principle that "the sale by a person who has the full right to make, sell, and use such a machine *carries with it* the right to the use of that machine to the full extent to which it can be used." 84 U.S. (17 Wall.) at 455 (emphasis added); *Univis Lens*, 316 U.S. at 249 (observing that an authorized sale is "both a complete transfer of ownership * * * and a license to practice" the patented invention).[3]

The Court draws this limitation from the language of the statute: "all that [the patentee] obtains by the patent" is "the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee." *McQuewan*, 55 U.S. (14 How.) at 549; see, *e.g.*, *Motion Picture Patents*, 243 U.S. at 516. The Court has reasoned that once a patentee (or one with authority to convey title validly) parts with title to a machine embodying his patented invention, he has exercised his exclusive right to sell under the patent statute. After an authorized sale, a patentee is in no different position than any inventor, with or without a patent, who lawfully passes title to a machine embodying his invention. *McQuewan*, 55 U.S. (14 How.) at 549. That is so, the Court has explained, because—unlike a li-

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[3] The Court has made clear, however, that a permissible sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent, even if both patents are owned by the same patentee. See *Boesch* v. *Graff*, 133 U.S. 697 (1890).

censee who exercises a portion of the patentee's exclusive rights—one who purchases a patented article "for the purpose of using it in the ordinary pursuits of life * * * exercises no rights created by the act of Congress, nor does he derive title to [the machine] by virtue of the franchise or exclusive privilege granted to the patentee." *Ibid.* Thus, once the patentee parts with title through an authorized sale, "[c]omplete title to the implement or machine purchased becomes vested in the vendee by the sale and purchase," *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544, 548 (1873), and the purchaser "becomes possessed of an absolute property in such articles, unrestricted in time or place," at least with respect to the patent laws. *Keeler*, 157 U.S. at 666.

This Court's cases also reflect that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and * * * once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Univis Lens*, 316 U.S. at 251. Under this Court's cases, the reward to which a patentee is entitled for a "machine or instrument whose sole value is in its use" is the compensation for which he (or one acting with his authority) first parts with title. *Hobbie*, 149 U.S. at 362. That is so because once the patentee has parted with title to a machine embodying his invention, he has no further rights under the patent laws in that machine. As this Court has explained, "as between the owner of a patent on the one side, and a purchaser of an article made under the patent on the other, the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any fur-

ther subjection to the patent throughout the entire life of the patent." *Keeler*, 157 U.S. at 666.

Congress's re-enactment of the patent laws in 1952 supports this Court's construction of the statute. Acting against the backdrop of almost 100 years of this Court's precedent applying the first-sale doctrine to patent law, Congress made no effort to alter or amend that construction. As this Court has recognized, when "judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its . . . judicial interpretations as well." *Merrill Lynch, Pierce, Fenner & Smith, Inc.* v. *Dabit*, 547 U.S. 71, 85 (2006) (quoting *Bragdon* v. *Abbott*, 524 U.S. 624, 645 (1998). That presumption is applicable here, where the only change that Congress made in the 1952 amendments to the grant of exclusive rights was to change the text to "'the right to exclude others from making, using, or selling', following language used by the Supreme Court, to render the meaning clearer." S. Rep. No. 1979, 82d Cong., 2d Sess. 23 (1952); see *Deepsouth Packing Co.* v. *Laitram Corp.* 406 U.S. 518, 530 (1972).[4]

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[4] The lone exception to this Court's treatment of the first-sale doctrine as delimiting the scope of the patent right was the short-lived decision in *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), which was expressly overruled by *Motion Picture Patents*, 243 U.S. at 518. In allowing a patentee to enforce through the patent laws a restriction that purchasers could use its patented invention only with supplies purchased from the patentee, the *A.B. Dick* Court read this Court's first-sale cases as recognizing only a license implied in *fact* to use the purchased article. 224 U.S. at 24. In so concluding, the *A.B. Dick* Court misread *Mitchell* as involving a conditional sale, see *id.* at 23, when, in fact, *Mitchell* involved an unauthorized sale, see *Mitchell*, 83 U.S. (16 Wall.) at 548-549. See p. 13, *infra*.

The Court's decision in *Univis Lens* confirms that the doctrine delimits the scope of the patent right in a manner that cannot be extended or altered by the parties. In *Univis Lens*, the Court rejected, as a defense to a Sherman Act claim, the argument that the patent statute authorized a maker of eyeglass lens blanks to impose resale price restrictions on finished lenses made with the blanks.[5] The Court reasoned that the sale of the lens blanks by the authorized licensee of the patent holder extinguished the patent holder's authority to control the conduct of downstream retailers. See 316 U.S. at 249-251. The Court so concluded because the lens blanks sold under the license were capable of use only in practicing the patents, and notwithstanding that (in contrast to earlier cases) the product sold with the patent holder's authorization did not infringe until after the sale, when the downstream retailers finished the lens blanks. *Id.* at 248-249; see *id.* at 249 (assuming that "each blank * * * embodies essential features of the patented device and is without utility until it is ground and polished as the finished lens of the patent").

In so holding, the Court reiterated the principle of its earlier cases, observing that "[t]he first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers." *Univis Lens*, 316 U.S. at 252. The Court also reasoned that "[a]n incident to the purchase of any article,

[5] The Court's analysis of the failure of the defendant's patent-law defense survives the demise of the per se ban on resale price maintenance. See *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 127 S. Ct. 2705 (2007), overruling *Dr. Miles Med. Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911). Indeed, the first-sale doctrine continues to play an important role in limiting the scope of the patent defense and thereby allowing courts to apply rule-of-reason analysis to resale price maintenance agreements involving patented goods.

whether patented or unpatented, is the right to use and sell it." *Id.* at 249. Thus, "[s]ale of a lens blank by the patentee or by his licensee is * * * in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patent procedure." *Ibid.* The Court plainly understood that "license" to arise as a matter of law by virtue of the sale, because it overrode the patent holder's imposition of explicit limitations purporting to constrain the downstream finishers' right to sell the finished product. See *id.* at 243-246. If the license to which the Court referred amounted to no more than a presumption of authorization that could be rebutted by contrary evidence or agreement of the parties, the Court would not have found exhaustion.

2. In contrast to the Court's consistent rejection of attempts by patentees to place patent-law limitations on use or resale by authorized purchasers, this Court repeatedly has held that a patentee may require mere licensees to comply with any lawful condition to which the parties may agree—including field-of-use restrictions and even minimum price restrictions—on pain of liability for infringement for both the licensee and purchasers with knowledge of the restriction. See, *e.g.*, *General Talking Pictures Corp.* v. *Western Elec. Co.*, 305 U.S. 124, 127 (1938); *General Elec.*, 272 U.S. at 489-490; *Bement* v. *National Harrow Co.*, 186 U.S. 70, 91 (1902); *Mitchell*, 83 U.S. (16 Wall.) at 547-551. The Court bases the distinction between licensees and purchasers on the ground that a licensee enjoys a portion of the patentee's exclusive rights granted by the patent statute. *E.g.*, *id.* at 548; *McQuewan*, 55 U.S. (14 How.) at 549-550. Because the licensee stands in the shoes of the patentee, this Court generally has allowed the pat-

entee to restrict its licensees as if the patentee itself were exercising the exclusive patent rights, as long as the conditions "are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." *General Elec.*, 272 U.S. at 490.

Among the restrictions on licensees that the Court has allowed to be enforced through an infringement action is a restriction on a licensee's ability to make an authorized sale. An early example is *Mitchell*, where the patentee had conveyed to the licensee the right "*to license to others the right to use the [patented] machines*," 83 U.S. (16 Wall.) at 548, but not the right to sell the machines, and the license expressly forbade the licensee to "'*in any way, or form, dispose of, sell, or grant* any license to use the said machines beyond the expiration' of the original term." *Id.* at 549 (quoting license). When Congress extended the original patent term, the patent holder brought a patent infringement suit to enjoin the ongoing use of machines that the licensee had purported to sell to the defendant. Notwithstanding the sale by the licensee, *ibid.*, the Court held that the first-sale doctrine did not apply, because the seller "was only a licensee and *never had any power to sell a machine* so as to withdraw it indefinitely from the operation of the franchise secured by the patent." *Id.* at 551 (emphasis added).

More recently, in *General Talking Pictures*, the Court held that when a licensee makes and sells a patented article in violation of the field-of-use terms of its license, "the effect is precisely the same as if no license whatsoever had been granted," and the patentee could sue both the licensee and the purchaser (who was on notice of the restriction) for infringement of the patent. 305 U.S. at 127. In *Univis Lens*, by contrast, where the

sale of the lens blanks was authorized (albeit expressly subject to limitations on resale), the patent-exhaustion doctrine applied, because "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." 316 U.S. at 249. Although there is a seeming anomaly in allowing a patentee to achieve indirectly—through an enforceable condition on the licensee—a limitation on use or resale that the patentee could not itself impose on a direct purchaser, the distinction is a necessary and explicable result of the Court's decision in *General Talking Pictures*.

B. Under The Federal Circuit's Cases, The Patent-Exhaustion Doctrine Is Subject To Express Modification

In the decades since this Court last interpreted the first-sale doctrine, the doctrine has evolved in the Federal Circuit in a manner that appears to depart from this Court's cases. As it has evolved, the Federal Circuit's patent-exhaustion doctrine "does not apply to an expressly conditional sale"—that is, to a sale that is subject to an express limitation on the right to use or to resell the patented invention. See Pet. App. 5a (quoting *B. Braun Med., Inc.* v. *Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997)).

The foundation of the Federal Circuit's approach to the first-sale doctrine is *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (1992). In *Mallinckrodt*, the patentee manufactured and sold to hospitals a medical device marked with a "single use only" notice. *Id.* at 701. The devices were in fact capable of reuse, and many hospitals that purchased the devices sent the used products to Medipart for reconditioning. *Ibid.* This Court's cases would appear to treat such a restriction on reuse, like an

express restriction on resale, as unenforceable in an infringement action. The Federal Circuit, however, held that the patentee could enforce the "single use only" notice in an action for patent infringement. *Id.* at 703-709.

In so doing, the court of appeals interpreted this Court's patent-exhaustion cases as establishing only that "price-fixing and tying restrictions accompanying the sale of patented goods were *per se* illegal." *Mallinckrodt,* 976 F.2d at 704. In the court's view, this Court's cases "did not hold, and it did not follow, that all restrictions accompanying the sale of patented goods were deemed illegal." *Ibid.*; see *id.* at 708 ("*Adams* v. *Burke* and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article."). The court of appeals emphasized this Court's decision in *General Talking Pictures* and concluded that there was no persuasive basis for holding that "the enforceability of a restriction to a particular use is determined by whether the purchaser acquired the device from a manufacturing licensee or from a manufacturing patentee." *Id.* at 705.

As the decisions in *Mallinckrodt* and this case indicate, the Federal Circuit understands this Court's first-sale decisions as drawing a distinction between "unconditional" and "conditional" sales, with the latter category encompassing any sales subject to restrictions on the right to use or to resell the purchased article. Pet. App. 4a-6a; *Mallinckrodt,* 976 F.2d at 706-708. As a result, under the Federal Circuit's cases, a patentee may attach restrictions on products embodying its patented invention and enforce those restrictions, in actions for patent infringement, against downstream purchasers

even after an authorized sale by the patentee or a licensee (as long as the restrictions are not anticompetitive ones, such as price fixing and tying).

The Federal Circuit's broad understanding of "conditional" sale is not reflected in this Court's cases. This Court did allude to the notion of an "unconditional" sale in *Mitchell*, which observed that the patent right is exhausted when the patentee "has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it * * * without any conditions." 83 U.S. (16 Wall.) at 547; see *Keeler*, 157 U.S. at 663 (quoting the foregoing passage in describing the *Mitchell* decision). But at that time, a "conditional" sale would have been understood as an agreement to sell where title would not convey until performance of a condition precedent. See, *e.g.*, *Harkness* v. *Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed" in which title does not pass until the condition precedent is performed).

That narrower understanding of a "conditional" sale is consistent with this Court's other patent-exhaustion cases, which explain that the doctrine is triggered "if a person legally acquires a title to" a patented item (*Chaffee* v. *Boston Belting Co.*, 63 U.S. (22 How.) 217, 223 (1859); when a patented item is "lawfully made and sold" (*Adams*, 84 U.S. (17 Wall.) at 457; *Hobbie*, 149 U.S. at 363) or "passes to the hands of the purchaser" (*McQuewan*, 55 U.S. (14 How.) at 549); or upon "the purchase of the article from one authorized by the patentee to sell it" (*Keeler*, 157 U.S. at 666). See *Univis Lens*, 316 U.S. at 249-251 ("authorized sale" triggered patent-exhaustion doctrine notwithstanding license agreement limiting resale prices); *Motion Picture Patents*, 243 U.S.

at 515-516 (describing as an "unconditional sale" a sale made subject to restrictions on resale price). That understanding is also reflected in the Court's frequent suggestion that whether a patentee can place enforceable downstream restrictions following an authorized sale turns on contract, not patent, law. See, *e.g.*, *Keeler*, 157 U.S. at 666; *McQuewan*, 55 U.S. (14 How.) at 549-550.[6]

II. THE ISSUE PRESENTED IS AN IMPORTANT ONE

The scope of the patent-exhaustion doctrine is an important question warranting this Court's review. Whether, and under what circumstances, patentees can avoid the effects of the first-sale doctrine by agreement or unilateral notice are issues of substantial ongoing practical importance. Since this Court last addressed the doctrine, the Federal Circuit has expanded the circumstances in which a patentee may enforce, in a patent infringement suit, restrictions on a patented article after an authorized sale. That expansion is difficult to reconcile with the reasoning of this Court's cases.

In addition, under the first-sale doctrine as it has evolved in the Federal Circuit, patentees can employ the patent law to extract royalties on articles embodying their invention at multiple downstream points in the

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[6] The Federal Circuit also has held, as it did here, that method patents are categorically exempt from the operation of the first-sale doctrine. Pet. App. 6a. Although this Court has never directly addressed the question, some of the Court's patent-exhaustion cases have involved method patents without any suggestion that such patents are categorically exempt from the exhaustion doctrine. See, *e.g.*, *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 186 (1980) (accepting the parties' concession that the patentee's sale of a chemical specially suited for use in a patented process exhausts the patentee's monopoly in the patented process, and citing *Univis Lens* and *Adams*); *General Elec.*, 272 U.S. at 480, 490 (finding no exhaustion).

channels of commerce, even after they have parted (or a licensee has parted in an authorized sale) with title to the article. Such a system could create significant inefficiencies by producing multiple rounds of patent infringement suits. The Federal Circuit's approach also has the potential to erode downstream competition by permitting patentees to avoid antitrust scrutiny of restrictions on the use and resale of products embodying their inventions—restrictions that would be enforceable as a matter of patent law in the Federal Circuit. Moreover, at least since the decision in *Keeler*, this Court has suggested that such an interpretation of the patent laws does not serve the public interest, and that the right to place such downstream restrictions should be resolved as a matter of contract, not patent, law. See 157 U.S. at 666-667; *Motion Picture Patents*, 243 U.S. at 509, 513, 515.

Furthermore, the question here involves more than choice of law or forum questions. To be sure, some of the same restrictions that the first-sale doctrine makes unenforceable in a patent infringement suit could be validly imposed as a matter of state contract law. But even otherwise valid contract provisions would not provide a defense to a federal antitrust action. Moreover, as this case illustrates, the Federal Circuit doctrine appears to allow a patentee such as respondent to enforce limitations on a downstream purchaser with whom the patentee has no direct contractual dealings (and notwithstanding that the agreement appears to impose no direct restrictions on the only party with whom respondent did contract). Whatever the proper interpretation of the scope of the patent right, no one benefits from the uncertainty caused by dissonance between Supreme Court patent precedents and more recent holdings of

the Federal Circuit. The Court could provide much needed guidance by granting review.

III. THIS CASE IS AN ADEQUATE VEHICLE FOR CLARIFYING THE PATENT-EXHAUSTION DOCTRINE

This case presents the Court with an adequate vehicle for clarifying the scope of the doctrine of patent exhaustion. Respondent errs in contending (Br. in Opp. 14-16) that the decision below rests only on the "accepted legal principle" that patentees may place restrictions on sales by licensees, and thus turns on the fact-specific question of the terms of the license between respondent and Intel. The parties do not dispute that respondent authorized Intel to sell the components to petitioners. Pet. App. 29a-30a. That distinguishes the cases involving licensees who made unauthorized sales. The legal dispute is whether, having authorized the sales at issue by imposing no direct restriction on the licensee's ability to sell, a patentee can nonetheless invoke the patent laws to enforce a purported restriction on the purchaser's right to use the article for its only reasonable use. That dispute goes to the heart of the tension between this Court's precedents and the approach taken by the Federal Circuit. Whether respondent could have lawfully achieved the result it sought through a different arrangement, the Federal Circuit allowed it to enforce under the patent laws a restriction on the right to use its patented invention, even after an authorized sale.

To be sure, the question presented in this case arises in a factual context that may not reflect the most common circumstance in which the patent-exhaustion doctrine is implicated. Unlike in *Mallinckrodt*, for example, the question arises here in the context of a licensee sale, and one in which the sale was not of a patented article,

but rather merely a component of the patented systems. And the court of appeals did not address whether, absent what it found to be enforceable conditions on the sale, Intel's authorized sale of the components would exhaust the patents at issue.[7]

In any event, the rationale of the judgment below is that the sale here was a conditional one and that the patentee can impose the limitations at issue notwithstanding the patent-exhaustion doctrine. The propriety of that judgment warrants this Court's review.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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[7] Read in isolation, and without an understanding of its context and purpose, Section 271(d) of Title 35 might be construed to entitle a patentee in respondent's position to relief. In relevant part, that section provides:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * *
>
> (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent.

35 U.S.C. 271(d)(2). Upon analysis, however, the only plausible reading of Section 271(d) is that it addresses the relationship between the doctrines of patent misuse and contributory infringement, not the distinct doctrine of patent exhaustion. See generally *Dawson Chem.*, 448 U.S. at 200-213; *Aro Mfg. Co.*, 377 U.S. at 492. A patentee whose infringement claim is barred by principles of patent exhaustion is not "otherwise entitled to relief," and therefore obtains no benefit from Section 271(d). That presumably explains why neither party has invoked Section 271(d) in this case.

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